

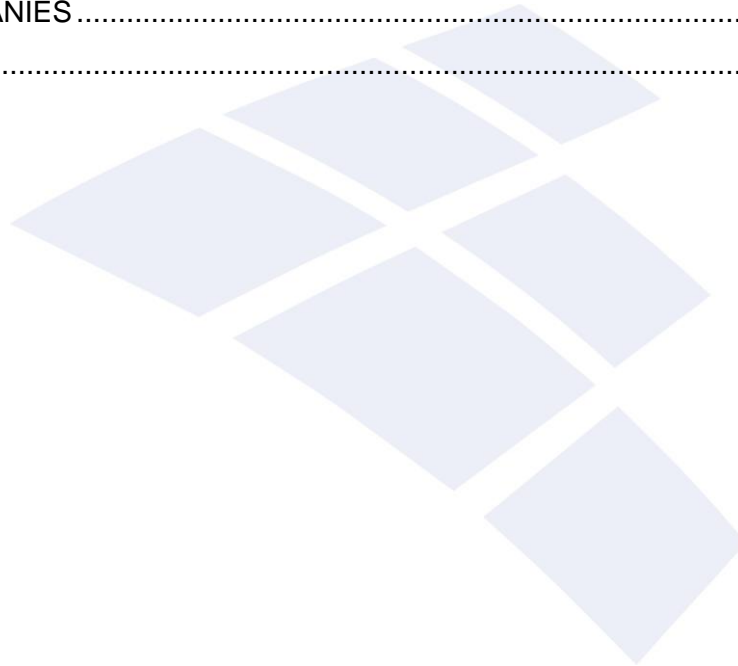
# Corporation Tax Update

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22 MARCH 2023

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## Corporation Tax update April 2023

The UK government has confirmed that it will proceed with significant corporation tax changes.

These changes will come into effect as of 01 April 2023.

### Main rate of corporation tax

Currently there is a flat rate of UK Corporation Tax of 19%. This is applied to all company profits, regardless of the level of profits.

From April 2023, the main rate of Corporation Tax will increase to 25%.

This main rate of Corporation Tax will apply to companies with profits over £250,000.

However, non-UK resident companies & close investment holding companies will be subject to the main rate of tax on all profits.

A non-UK resident company is a company which has been incorporated overseas. This structure is commonly seen holding UK investment properties.

A close investment holding company is any company that meets two conditions:

- 1) It is controlled/managed by five or fewer participators.
- 2) It does not carry on a trade or letting activity on a commercial basis.

### Small profits rate of corporation tax

A small profits rate of corporation tax will apply where company profits are equal to or less than £50,000.

The small profits rate of corporation tax is 19%.

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## Marginal relief

A company who has profits falling between £50,000 and £250,000 will pay corporation tax at 25%.

However, this is reduced by marginal relief, giving a staggered increase in corporation tax.

Most companies will pay an effective rate of corporation tax of 26.5% on profits between £50,000 and £250,000.

## Reduction in thresholds

Both the £50,000 and £250,000 thresholds may be reduced in a number of circumstances. Most commonly these will be:

- 1) Where the accounting period is shorter than 12 months;
- 2) Where there are associated companies.

If either or both of the above apply, a company will pay the higher rates of corporation tax on profits lower than listed above.

## Associated companies

Companies will be associated if at any time during the accounting period either of the following apply:

- 1) One company controls the other; or
- 2) They are controlled by the same person or persons.

The associated company rules will apply to all companies regardless of where they are resident. For example, an individual who controls one company in the UK and one company in Italy, will have two associated companies.

Dormant companies and passive holding companies can be ignored for this purpose.

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## How we can help

At LCM we have many years' experience helping clients prepare accounts, corporation tax returns and corporation tax forecasts. If you need help with corporation tax in general or any of the above, please do get in touch. Our team will be happy to explore how we can help you.

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